

094536

ADDRESS BY COMPTROLLER GENERAL OF THE UNITED STATES

ELMER B. STAATS
AT THE AMERICAN ASSEMBLY OF
COLLEGIATE SCHOOLS OF BUSINESS,
HONOLULU, HAWAII
APRIL 3, 1973



"THE COMMON INTERESTS OF GOVERNMENT AND
SCHOOLS OF BUSINESS AND ADMINISTRATION
IN IMPROVING MANAGEMENT IN GOVERNMENT"

Those who travel from Washington to different regions of the United States do not, as a rule, bring with them reports that all is well. Someone has said that, in today's world, an optimist is one who is so naive as to believe that the future is still uncertain.

With these as my opening sentences, you may fear that I have simply brought you a couple of briefcases bulging with problems. This would have been relatively easy, but my purpose is a more constructive one.

At the outset I want to express my appreciation to Beta Gamma Sigma for the honor conferred upon me and the U.S. General Accounting Office yesterday and also for this opportunity to become better acquainted with the membership and program of AACSB. The graduates of your schools, long preeminent in the business community, are now playing an important part in government. Your task--and your challenge--is to continue to supply graduates who meet the increasingly complex leadership needs of both business and government.

One of my messages today is that we have no time to lose in training these future leaders to be more capable than those

709876

who came before them. Likewise, those of us in Washington who can support you in this effort have no time to lose in doing what we can to help. For we are living today, and we will live in the future, amidst forces and tensions that will require steady heads and steady hands.

THE "GROWING" OF LEADERS
OF THE FUTURE

The General Accounting Office celebrated its 50th anniversary in 1971. The ceremonies that commemorated this event, however, did not dwell on how far GAO had come between 1921 and 1971. Instead we devoted our attention to the future and GAO's place in it.

A series of lectures based on this theme was focused on the coming decades. One of these lectures might well substitute for what I will attempt to contribute to this program. I am referring to the remarks by Harlan Cleveland, President of the University of Hawaii. His lecture was entitled "The Growing of Public Executives," a preview of a book he subsequently published entitled "The Future Executive."

President Cleveland defined the role of executives as bringing people into organizations to make something happen. Because he sees a continuing blurring of the differences that have traditionally separated the private and public sectors of our society, he forecasts the coming of a new type of executive capable of managing public responsibilities in both public and private organizations.

In preparing students for positions of leadership, Mr. Cleveland proposed a new educational entity which might be called a Graduate School for Public Executives. He said the content of the curriculum should be tailored to help the budding public executives determine what they lack. He suggested that the new school concentrate on people in mid-career who have already achieved a specialty but are gravitating to general leadership.

There is a great deal more in his lecture and his book, but I now must move on to consider some more personal views of what we need you--the business schools and the Government--to do. In so doing, I want to be as specific as possible.

What does the Government need from the business schools? Perhaps I ought to say something first about what we do not need. We have no great need for specialized technicians. Some of these are required but you need not increase the supply.

We do need people who regard waste, inefficiency, and carelessness in the use of our natural and human resources as abhorrent and intolerable.

We need people who want to be leaders and who associate with that desire the highest standards of honesty, integrity, and ethics--a sacred regard for the public interest--whether or not their day-to-day work involves them in private enterprise or government service.

We need pioneers and explorers who are willing to contend with the unknown in ways which will expand our understanding of how this world works and what is needed to improve the quality of life of its residents.

SOPHISTICATED UNDERSTANDING OF GOVERNMENT AND POLITICS

Whether these future leaders remain in business, enter a more specialized profession, or develop in some other capacity, they will never escape their relationship to, and concern with, the activities of government--Federal, State, and local. An understanding of government and politics is a must, and the schools of business and public administration should assume a large part of the burden of insuring that their graduates obtain such an understanding. Why is this important?

First, businessmen have an obvious self-interest in the share of their financial resources taken by governments in the form of taxes and in the efficiency and effectiveness with which those tax dollars are administered and spent.

Second, business has a direct interest in the nature, form, and purposes of many government programs.

Third, the relationship of government to private institutions, particularly industry, is changing. We have moved a long way from the concept that the role of government should be restricted to things purely governmental in character. Governments now do many things that directly affect, if not compete with, business enterprise.

The need for a realistic understanding of the nature and importance of government-business relationships simply cannot be underestimated by our system of education in preparing leaders for the future. More training on public issues and the working of democratic institutions is needed in graduate and professional schools. This is true for all of our graduate schools: medical, engineering, law, public health, forestry, and others. Too many of these graduates still undertake their duties with a wholly inadequate understanding of the workings of government institutions.

THE GROWING INTERDEPENDENCY OF BUSINESS AND GOVERNMENT

In emphasizing the mutual interest of government and business, we are also recognizing that government has moved into many areas which take on the characteristics of business; for example, atomic energy development, electric power generation, and some manufacturing operations. It exercises its regulatory authority in such fields as transportation, communications, and securities markets. And government is performing more and more of its functions through the private sector in one way or another; such as providing subsidies, grants, or loans and other financial incentives or entering into contracts for needed goods and services.

Some time ago at a stockholders' meeting, a company speaker said that "maximum financial gain, the historical number one objective" of American business must move "into second place

whenever it conflicts with the well-being of society." You might guess that the speech was made by Ralph Nader, but you would guess wrong. The speaker was B. R. Dorsey, President of the Gulf Oil Corporation.

This incident reflects the changing attitude and role of the private sector in its willingness to help solve social problems so well known to all of us--problems dealt with in the past by government alone or not dealt with at all. Today business is incurring more and more costs in discharging social obligations.

A relevant question is whether we have adequately thought through the long-term implications of what we now call the social responsibilities of business. For example:

- Can better ground rules be established to define the roles of government and business?
- Are we attempting to place too much social responsibility on business too rapidly?
- Has anyone added up the cumulative costs to the consumer and the investor of these additional obligations?
- Do we understand sufficiently how business, the government, and the consumer are to share costs?

In undertaking social benefit programs, are companies merely responding to the various forms of public pressure? To some degree, I would say, yes. But I suggest that this is only a part of the explanation. Their response is, in part, a matter of enlightened self-interest.

SEVERE FISCAL PROBLEMS
FACING U.S. GOVERNMENT

I can think of no better example to underscore the importance of the relationship of future leaders to the government and to the society in which they will work than the severity of the fiscal problems currently facing the Federal Government.

There must be confidence that fiscal decisions are made wisely, openly, and with the greatest possible participation by those affected. Unless the workings and the impact of the Federal budget are widely understood and its priorities are intelligently questioned, the shaping and conduct of the Nation's business becomes the prerogative of not just those in power but of those few in power who have the information and do understand.

Ways and means of obtaining a better understanding of the Federal budget process and its impact on our economy, on our relationships with other countries, and on business operations is a growing challenge for every school of business or public administration.

THE PROBLEM OF FIXED OR
UNCONTROLLABLE EXPENDITURES

Few people understand the extent to which Federal expenditures become "fixed"--or as some people prefer to call them "uncontrollable"--for programs which directly support the income of individuals, such as Social Security, Medicare, veterans' compensation, military retirement, and railroad

retirement. These programs have grown from less than \$4 billion in 1950 to nearly \$17 billion in 1960, nearly \$50 billion in 1970, and nearly \$73 billion last year.

If one were to add other income-support programs, such as public assistance, housing subsidies, student loans, and farm price supports, the increase from 1950 to 1973 is more than tenfold. The total for such programs represents over \$100 billion, about 40 percent of the President's current budget. These programs are obviously politically sensitive and difficult to change. They derive, to a large extent, from the pressures of a society becoming increasingly urban, increasingly complex, and increasingly dependent upon government for employment and economic growth.

They are also the result of a political system and a political environment in which the executive and the legislative branches too frequently compete for political support by offering more and larger programs without facing up to the reality that such programs have been financed through borrowing rather than new taxes. In the past 4 years alone, the national debt has grown more than \$100 billion.

There is some comfort when we view the trend of rising Federal costs from a different perspective--as a percentage of our gross national product.

--In 1960 Federal expenditures accounted for 19 percent of GNP.

--In 1974 Federal expenditures will account for 22 percent of GNP.

Even though this is a small percentage increase, Federal expenditures still rose at a faster rate than any other category of expenditures which make up the GNP.

Considering governmental expenditures from the standpoint of their effect on the economy, particularly in a period of inflationary pressures, we cannot overlook the fact that State and local government expenditures have increased much more rapidly than those of the Federal Government. When State and local government expenditures are added to those of the Federal Government, the total represents nearly 35 percent of the GNP.

This means that in recent years the governmental sector in the American economy has been growing twice as fast as the private sector.

GOVERNMENT INFLUENCE ON THE ECONOMY AS A BUYER

This brings us to a related and increasingly important aspect of government-business relations--government as a purchaser of goods and services. The Federal Government is, in fact, the private sector's biggest customer. Over the past 20 years, Federal Government procurement has increased six times. The size and scope of Federal procurement is staggering. In a typical year, some 80,000 Federal employees will handle millions of purchase actions involving thousands of companies which employ millions of workers.

The report of the recent Commission on Government Procurement, of which I was a member, issued early this year,

had this to say about the size and impact of Federal purchasing:

"The \$57.5 billion spent on procurement by the Government in fiscal 1972 represented about one-fourth of the budget, a truly formidable amount * * *. Procurement expenditures are thought to generate some three times their amount through the 'multiplier' effect (secondary and related consumer spending) * * *.

"The impact of Government procurement on the Nation's economic and social well-being is more far-reaching than even these figures suggest * * *. The magnitude of Government procurement provides leverage which is used as an instrument for achieving national, social, and economic objectives * * *."

The very magnitude of this aspect of government operations and its impact on virtually every segment of our economy suggests the need for schools of business and administration to devote greater attention to government procurement processes and problems in their educational programs.

RESPONSIBILITY OF THE CONGRESS AND ITS ROLE OF OVERSIGHT

As we all know, the President, as head of the executive branch of the Federal Government, proposes what Government programs will be undertaken and how they will be financed. But it is the Congress, the legislative branch, which disposes--accepts the President's legislative proposals, modifies or expands them, or rejects them entirely.

Much has been said in criticism of the Congress. We hear such criticisms daily. But, having been directly concerned with budget and legislative matters in the Executive Office of the President for more than 25 years and now as Comptroller

General in the legislative branch for more than 7 years, I can testify that, as a general proposition, the committees of the Congress not only make vigorous efforts to understand, but do understand, the complexities of the programs on which they are required to legislate or appropriate.

In plain talk, the Federal Government has become almost unbelievably complex. Therefore the job of the Congress has become more complex. It must deal with such matters as atomic energy, space programs, Medicare, monetary reform, pesticides, and air pollution. The list is a very long one, indeed.

Too frequently, we think of the Congress only in its role of appropriating funds or enacting legislation. Perhaps there has not been enough concern about the ability of the Congress to exercise adequate oversight as to whether programs are being carried out economically and efficiently and are serving the purpose intended.

Special problems arise when the Congress is of one political faith and the President of another. Congress, attempting to grapple with the President's changing Federal programs and the growing strength of the executive branch, finds itself in the midst of what is now being labeled an "information gap."

The executive branch with its growth in size and power, and with its sophisticated techniques for gathering, sifting, and analyzing information, has left the Congress behind, many of its members fear, in the task of setting and monitoring national policy.

Members protest Presidential impoundments, the refusal of top administration aides to testify before congressional committees, and a lack of consultation on national security issues; and they feel the Congress is on the defensive in the battle between the legislative and executive branches of the Government. It seems to me that the fundamental questions are these:

- Has the Congress lost its "coordinate position" with the executive branch?
- Has the Government become too large and too complex for legislative oversight?
- Does the President--in a period of television--overshadow any similar figure or group of figures in the legislative branch and thus have an overpowering advantage in molding public opinion?

Effective congressional oversight can serve two highly important purposes: First, it can publicize waste, mismanagement, conflicts of interest, and the like, and it can bring pressure for corrective action. In short, it can serve to keep the administrator on his toes. Second, as programs change and as needs change, the Congress must review the budget as to the total amount needed and the priorities within the total.

HOW GAO HELPS FILL THE "INFORMATION GAP"

The General Accounting Office has an important part in helping to meet the "information gap" problem. GAO, assists the Congress to obtain the facts about almost all aspects of government operations. Time after time, a member of Congress

will state that "we are not told, except by the GAO" that an agency of the Government is doing so and so. The pages of The Congressional Record are replete with such comments. But GAO does far more than just dig out facts, important as that is.

GAO could join in a comment made not long ago by the First National City Bank of New York, which stated in its monthly letter that "if there is one overriding lesson to be learned from the Sixties *** it is that *** the fundamental criterion by which success or failure is judged should not be how much is spent on a program but rather how much is accomplished and at what costs."

We must make sure that the money we spend is used efficiently and for only those goods and services needed to provide the desired results. In the 1970s we must devote more attention to eliminating the inefficient and wasteful expenditures--and even the marginally cost-effective programs--that we have accepted too frequently in the past.

The task of GAO is to ask these crucial questions.

--Are the programs achieving their objectives?

--Are they costing more than they should cost?

--Are there other approaches which would better accomplish the objectives at less cost?

We are concerned with how existing Federal programs can be made to work better and at less cost, with avoiding the tendency to leap into new and untried approaches, and with

avoiding mass infusions of more money into programs that have not yet demonstrated their worth.

Thus the primary function of GAO is to assist the Congress and its committees in their legislative oversight of executive programs. Last year we made 524 written reports on our findings and recommendations to the Congress, its committees, and its members.

SPECIFIC CASES OF
GOVERNMENT MANAGEMENT PROBLEMS

Let me illustrate.

GAO prepares and transmits each month to the Congress, its committees, and members, a list of reports issued or released in the previous month. This list is also available to the public. It reflects the increased complexity of Government and the difficulty, for both legislators and citizens, of understanding and evaluating the need for programs and the effectiveness of programs.

In March, for example, I reported

- that Federal programs to improve the living conditions of migrant and other seasonal farmworkers have had a limited impact;
- that the National Marine Fisheries Service should improve its ways of making loans so that the U.S. fishing fleet would become more efficient and more competitive with other nations;
- on difficulties of the Neighborhood Youth Corps in helping to keep disadvantaged youths in school by providing them with jobs;
- on problems of the National Institutes of Health in regulating, through licensing, selected vaccines;

- that potentially adulterated processed fruits and vegetables sold to consumers needed to be better controlled and sanitation in some plants needed to be improved under the combined work of the Food and Drug Administration and the Agricultural Marketing Service;
- that the Export-Import Bank's Capital Loan Program needed improved management procedures in order that the Bank adhere to its basic charter; and
- that some of the U.S. costs in NATO had not been made clearly apparent to the Congress.

Last week I presented, in testimony to the Congress, a detailed analysis of, together with a GAO report on, the various causes underlying cost overruns, or cost growth, in major weapons systems development. The complexity of these systems--such as the C-5A aircraft, the Navy's new destroyer, and the Army's new tank--has brought about a geometric increase in their costs and in the potential risks that such systems, when produced, may fail to meet the performance objectives for which they were designed. These overruns have caused serious public misgivings as to the creditability of both public and private management.

IMPROVEMENT OF GOVERNMENTAL LEADERSHIP

The work of the AACSB in helping to improve management of the Federal Government is to be commended. Through your leadership, the Sears AACSB Federal Faculty Fellowship Program was begun. You are also acquainting your members with the activities of various Federal agencies through your sponsorship of the GAO deans seminar. Likewise, your sponsorship of the Beta Gamma Sigma-GAO student seminar is providing a

workshop atmosphere for educating your students in governmental administration.

Many of your faculty members have provided important contributions to government by serving on consulting staffs of agencies throughout the government. GAO especially appreciates your help on one of our important consultant committees--our Educator Consultants Committee. Since 1956 many from your faculties and several of you have helped us in the development of our recruiting and training programs, which I believe are second to none.

You might ask, "Why should deans of schools of business and administration worry about improved management of government?" I have already stated the case in broad public policy terms. Another important reason is that government uses so much of your product.

From GAO's standpoint alone, over 95 percent of our new college recruits each year are from schools of business and administration. Of each year's supply of college students for the Federal Government, at least 20 percent come from schools of business and administration. Thus, you provide a very large part of the total number of college people hired in the Federal Government.

But the number of your graduates that the Federal Government has received is only a small part of the total need. The Civil Service Commission tells us that, in the Federal Government alone, there is twice as much need for competent

managers as is being supplied. We also know that many State and local governments have a heavy unmet demand for managerial talent.

What can you as college administrators do to make better government possible? For one thing, your classes can use cases concerning government activities instead of only cases on business activities. GAO reports provide good examples of problems in need of solutions. Many of your students would then become acquainted with the challenge to government management on a realistic basis. There are substantial differences in managing a profitmaking organization from one not having profit as an objective. They require different techniques and procedures, particularly when they involve programs that are socially or politically sensitive.

This country's relentless drive in recent years to improve its material standard of living has coincided with a rapid growth in its population. This has accelerated the depletion of our natural resources and increased the pollution of our environment. Resource depletion and pollution, in turn, have been important factors in increasing business costs which, in turn, have reduced our ability to compete in the world market and have slowed down the increase in our national output.

This is the great dilemma of our time. Careful planning, a high degree of cooperation among business, government, and labor, and the greatest ingenuity of our scientists and engineers are needed to resolve the dilemma.

This challenge requires creative thinking and a constant reexamination of conventional or traditional governmental policies, methods, procedures, and organization. Albert Einstein once said "Imagination is more important than knowledge." Adolph A. Berle, Jr., cautioned that "Great ideas need landing gear as well as wings." We need to heed such wise admonitions. In this decade of the seventies, every day of our lives is a testing time for the Federal Government and all of its managers, in whatever areas and at whatever levels. You can readily see, therefore, how vital your role is in educating your students in the broadest practical curricula to prepare them as leaders of the future.

Finally, what can we do to help you with all this? You can probably think of more possibilities for using our facilities and talents than will ever come to our minds. When you think of something, please let us hear from you. In the meantime, I am glad to affirm our willingness to participate, in any practical way, in activities on your campuses which will help your faculties and your students to understand government better.

We have been happy to participate in the Sears AACSB Fellowships and we will be glad to explore with you the possibilities for other ways to involve your people or acquaint them with our work.

Thank you all very much.

#